

## **PGL Pension Scheme**

### **Statement of Investment Principles**

This Statement of Investment Principles covers the Defined Benefit (DB) section of the PGL Pension Scheme (the Scheme).

A copy of this Statement has been provided to the appointed investment managers, is available to the members of the Scheme and will be published on a publicly accessible website.

#### **Investment Objective**

The Trustee aims to invest the assets of the DB section prudently to ensure that the benefits promised to members are provided. The Trustee has purchased Annuity Policies to insure these benefits and minimize the risk that the Scheme is unable to meet this objective.

#### **STRATEGY**

##### **Allocation**

The current asset allocation strategy comprises two Annuity Policies in relation to the full Scheme membership and a cash allocation through an investment in the Insight Liquidity Fund.

The Trustee has secured two Annuity Policies with Phoenix Life Limited (PLL). The first Annuity Policy was established in December 2016 and the second Annuity Policy was established in March 2019. They are intended to match the liabilities for the membership of the Scheme, and eliminate the interest rate, inflation and longevity risk to the Scheme of the liabilities.

The cash fund is actively managed by Insight Investment Limited (Insight) against a cash benchmark.

The majority of the assets transferred to PLL are currently held in a Trustee account with HSBC Bank Plc (HSBC) as 'collateral'. PLL have a fixed charge on this account and the Trustee is delegating the discretion to manage the assets to PLL, PLL have appointed Aberdeen Standard Investments Ltd (ASI) as asset manager of these assets. ASI will manage these assets in line with the Buy-In Policy Agreements.

##### **Setting the strategy**

The overall strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. The Trustee consulted with the Company and considered written advice from its investment adviser when choosing the DB section's planned asset allocation strategy.

In setting the investment strategy for the DB section the Trustee's policy was to consider the following:

- A full range of asset classes;
- The risks and rewards of a range of alternative asset allocation strategies;
- The need for appropriate diversification both across asset classes and within asset classes; and
- The suitability of each asset class included in the planned asset allocation strategy.

##### **Environmental Social and Governance Considerations**

The Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to purchase annuities and has delegated the management of the collateral backing these policies to PLL. The Trustee does not attempt to influence the ESG integration nor stewardship policies and practices of PLL in managing these assets. The Trustee will continue to monitor and engage with Insight in respect of the residual cash allocation.

### **Future investments**

When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager. The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this Statement. The investment adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act.

### **Stewardship – Voting and Engagement**

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights (where applicable) in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights, where applicable, by the appointed managers. Regarding the Annuity Policies and the collateral held in relation to them, the responsibility for voting and engagement with managers is with PLL.

### **Members' Views and Non-Financial Factors**

In setting and implementing the DB section's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"<sup>1</sup>).

### **RISK**

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to meet its liabilities. The Trustee has identified a number of risks which have the potential to impact their ability to make these payments. These are as follows:

- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ('cash flow risk'). The Trustee will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs. PLL is responsible for providing the cash for benefit payments covered by the Annuity Policies, the risk that it defaults on this obligation is covered under 'Annuity Policy default risk' below.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ('manager risk'). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter. The Scheme's cash holding with Insight aims to perform in line with its cash benchmark, the risk is that it fails to do this. However, given the small allocation and the low risk nature of the fund this risk has been mitigated significantly.
- The failure to spread investment risk ('risk of lack of diversification'). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy. Although the vast majority of the portfolio is invested in the Annuity Policies, the Trustee and its advisers are comfortable that this is appropriate.
- The possibility of failure of the Scheme's sponsoring employer ('covenant risk'). The Trustee and its advisers considered this risk when setting the investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ('operational risk'). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified

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<sup>1</sup> The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

- The risk that PLL fails to make the pension payments covered by the Annuity Policies as they fall due ('Annuity Policy default risk'). This risk is mitigated by the collateralisation of the Annuity Policies, the ongoing consideration of PLL's covenant by the Trustee and its advisors, and protections offered due to PLL being regulated by the Financial Conduct Authority and The Prudential Regulation Authority.
- The risk that, should the Annuity Policies collateral be returned to the Scheme, it is insufficient to meet the returned liabilities ('insufficient collateral risk'). This risk was considered by the Trustee and its advisers when agreeing the restrictions on how the collateral could be invested, and the assets held will be monitored.

Due to the complex and interrelated nature of these risks, the Trustee considered the majority of them in a qualitative rather than quantitative manner as part of their formal investment strategy review (normally triennially) and when purchasing the Annuity Policies. Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it through the use of Annuity Policies and using Insight as the sole manager, the Trustee's policy is to monitor both the cash fund holding and the Annuity Policy collateral on a quarterly basis.

### **IMPLEMENTATION**

As required by the Pensions Act, the Trustee has appointed an investment management company, Insight. The objectives for Insight's Cash Fund is to perform in line with the cash benchmark, 7 day LIBID.

The Trustee also holds direct investments due to its Annuity Policies with PLL.

Insight is responsible for the selection of individual securities within the Cash Fund.

The Trustee relies on Insight for the day-to-day management of the Scheme's Cash Fund holdings. Insight's duties also include:

- Realisation of investments;
- Taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments; and
- Corporate governance in relation to the Scheme's assets.

The Trustee expects that Insight carry out the powers of investment delegated to them with a view to giving effect to the principles in this Statement insofar as is reasonably practicable.

The Trustee's policy is to consider the quantitative performance of Insight at least annually in comparison with the benchmark performance (7 day LIBID) as appropriate.

### **Arrangements with Asset Managers**

The vast majority of the Scheme's assets are invested with PLL in the form of two Annuity Policies. The remaining holdings are invested in a cash fund and in the Trustee's bank account. The Annuity Policies are intended to wholly cover the benefits to all members of the Scheme.

Following the purchase of the Annuity Policies, and with the exception of the residual cash investments, the responsibility for managing arrangements with the asset managers lies with PLL. This responsibility may include ensuring that arrangements with appointed asset managers are aligned to achieving the long-term objectives of PLL and, as established within the contractual terms of the Annuity Policies, of the Scheme.

The Trustee regularly monitors the Scheme's investments, to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies, including those on non-financial matters.

In respect of the cash holding, this includes monitoring the extent to which Insight:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by their investment adviser.

The Trustee shares the policies, as set out in this SIP, with Insight, and requests Insight confirm whether their approach is in alignment with the Trustee's policies.

Before making any changes to the arrangements with their asset managers, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset manager and monitoring of the asset manager's investment strategy, is in most cases sufficient to incentivise the asset manager to make decisions that align with the Trustee's policies.

Where the asset manager is considered to make decisions that are not in line with the Trustee's policies, the Trustee will first engage with the manager but could ultimately decide to appoint a new manager in place if deemed necessary.

There is typically no set duration for arrangements with asset managers, although the Annuity Policies are illiquid. The continued appointment of Insight will be reviewed periodically and performance is considered on a regular basis.

## **Monitoring of Investment Managers Costs**

### Ongoing reporting and compliance

The Trustee paid a premium to PLL when the Annuity Policies were initiated, and as a result there are no ongoing fees in respect of the policies (where the majority of the Scheme's assets are held). The Trustee does not pay fees for the management of the collateral assets over which PLL has a fixed charge.

Insight is remunerated on a direct fee basis. The Trustee is aware of the importance of monitoring Insight's total costs and the impact these can have on the value of investments. The Trustee recognises that in addition to annual management charges, Insight incur several other costs.

The Trustee will collect cost information, in line with industry standard templates, from Insight regularly and, with support from their investment adviser, ensure these remain appropriate.

### Portfolio Turnover

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year.

The Scheme's investment adviser monitors the portfolio turnover of Insight's cash fund on behalf of the Trustee as part of their manager monitoring and flags to the Trustee where there are concerns.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs may vary over time. In both cases, a high level of transaction costs is acceptable if it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

### Evaluation of Performance and Remuneration

The Trustee evaluates the ongoing suitability of Insight as manager of the cash holding on a regular basis with support from their investment adviser.

The Trustee reviews the remuneration of Insight on an annual basis to ensure that these costs are reasonable in the context of the kind and balance of investments held.

## **Decision Making**

The Trustee of the Scheme is responsible for the investment of the Scheme's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

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|---------------------------|--|
| <b>Trustee</b>            | <ul style="list-style-type: none"> <li>• Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy.</li> <li>• Select and monitor planned asset allocation.</li> <li>• Select and monitor direct investments (see below).</li> <li>• Select and monitor investment adviser and fund managers.</li> </ul> |
| <b>Investment adviser</b> | <ul style="list-style-type: none"> <li>• Advise on all aspects of the investment of the Scheme's assets, including implementation of strategy.</li> <li>• Advise on this Statement.</li> <li>• Provide required training for the Trustee.</li> </ul>   |
| <b>Fund managers</b>      | <ul style="list-style-type: none"> <li>• Operate within the terms of this Statement and the written contracts in place.</li> <li>• Select individual investments with regard to their suitability and diversification.</li> <li>• Advise the Trustee on suitability and practicality of the benchmark.</li> </ul>                                |

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased without a contract, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review the contents of this Statement and its direct investments and to obtain written advice about them at regular intervals (normally annually and at least every three years). Direct investments include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Scheme (Investment) Regulations 2005, the suitability of the investments, the need for diversification and the principles contained in this Statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries;
- Security;
- Quality;
- Liquidity;
- Profitability;
- Nature and duration of liabilities;
- Tradability on regulated markets;
- Diversification; and
- Use of derivatives.

The investment adviser, Aon Solutions UK Limited has the knowledge and experience required under section 36(6) of the Pensions Act 1995.

## **INVESTMENT ADVISER**

Aon Solutions UK Limited has been selected as investment adviser to the Trustee. It operates under an agreement to provide a service designed to ensure that the Trustee is fully briefed both to take the decisions it is equipped to do so after training and advice and to monitor those decisions that it delegates. Aon Solutions UK Limited is currently paid on a time-cost basis.

*This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.*

**September 2020**